

# Wendy's International, Inc. 1974 Annual Report



"A fresh approach to the hamburger business."





R. DAVID THOMAS



ROBERT L. BARNEY



RONALD E. MUSICK

### **Wendy's International, Inc.**

2066 West Henderson Road  
Columbus, Ohio 43220  
Phone 614-457-3610

#### **Board of Directors**

R. David Thomas, *Chairman*  
Leonard J. Immke  
Robert L. Barney  
Ronald E. Musick

#### **Officers**

R. David Thomas  
*Chief Executive Officer*  
Robert L. Barney  
*President*  
Ronald E. Musick  
*Secretary & Treasurer*  
Richard C. Fox  
*Financial Vice President*  
Charles Rioux  
*Vice President,*  
*Company Operations*  
David Teal  
*Vice President, Franchising*  
Graydon Webb  
*Vice President, Franchise Sales*  
H. James Graham  
*Director of Real Estate*  
Hank Sherowski  
*Director of Engineering*  
*and Development*

#### **Legal Counsel**

Federico, Myers, Giovanetti and Enz  
Columbus, Ohio

#### **Independent Auditors**

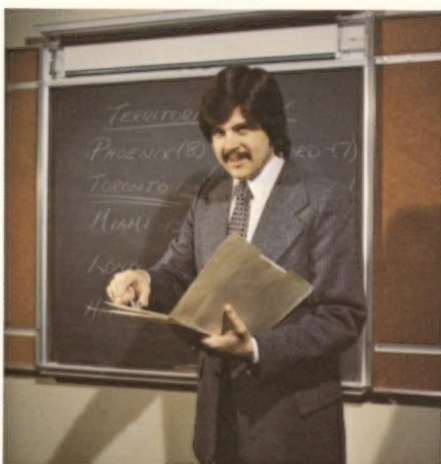
Coopers and Lybrand



DAVID TEAL



CHARLES RIOUX



GRAYDON WEBB



RICHARD C. FOX

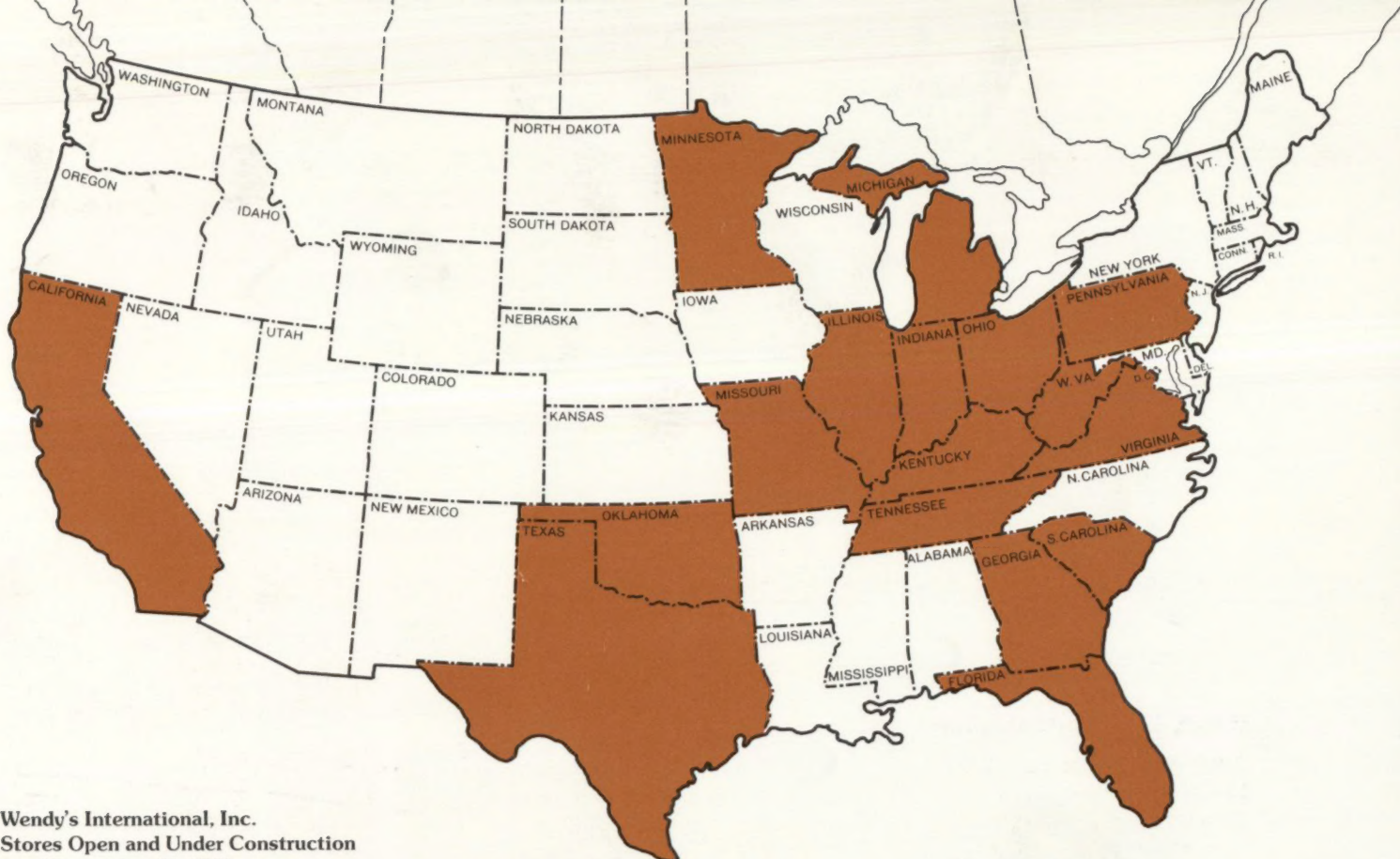


H. JAMES GRAHAM



HANK SHEROWSKI





**California**  
Fresno 2

**Florida**  
Altamont Springs  
Boca Raton  
Daytona Beach  
Ft. Lauderdale  
Jacksonville 4  
Orlando 3  
Tampa\*

**Georgia**  
Atlanta 3

**Georgia (cont'd)**

Augusta\*  
Decatur 2  
Doraville 2  
Macon\*  
Morrow  
Savannah

**Illinois**  
Chicago\*

**Indiana**  
Clarksville\*  
Indianapolis 6

**Kentucky**

Florence  
Lexington\*  
Louisville 3

**Michigan**

Kalamazoo 2  
Lansing\*

**Minnesota**  
Hopkins

**Missouri**  
Kansas City\*

**Ohio**

Akron 5  
Canton 2  
Cincinnati 4  
Cleveland 6  
Columbus 10  
Dayton 7  
Gahanna  
Hamilton  
Mansfield  
Marietta\*  
Marion

**Ohio (cont'd)**

Milford  
Newark  
Oregon  
Sharonville  
Toledo 3  
Youngstown\*

**Oklahoma**

Bethany  
Midwest City  
Oklahoma City 4  
Tulsa

**Pennsylvania**

Harrisburg\*  
**South Carolina**  
Greenville\*

**Tennessee**  
Memphis 2

**Texas**

Dallas 2  
Garland  
Houston 2  
Pasadena

**Virginia**

Norfolk\*  
**West Virginia**  
Beckley  
Charleston  
Morgantown\*

\*Under construction

## Wendy's International, Inc. 1974 Annual Report

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## Financial Highlights

<b>Operations</b>	Years ended December 31	<b>1974</b>	1973	% Change
Revenues . . . . .		<b>\$12,600,524</b>	\$4,540,931	177
Earnings Before Taxes . . . . .		<b>2,134,532</b>	583,457	266
Net Earnings . . . . .		<b>1,129,058</b>	327,257	245
Earnings Per Share . . . . .		<b>.36</b>	.11	227
Depreciation and Other Non Cash Charges . . . . .		<b>280,746</b>	115,156	143
Sales—Company-Owned and Franchised . . . . .		<b>24,232,962</b>	6,263,848	287
Restaurants in Operation End of Year . . . . .		<b>93</b>	32	
Company-Owned . . . . .		<b>42</b>	17	
Franchised . . . . .		<b>51</b>	15	
Restaurants Under Construction End of Year . . . . .		<b>33</b>	21	
Company-Owned . . . . .		<b>8</b>	6	
Franchised . . . . .		<b>25</b>	15	

<b>Financial Position</b>	<b>1974</b>	1973	% Change
Total Assets . . . . .	<b>\$11,713,249</b>	\$4,735,835	147
Current Assets . . . . .	<b>2,418,640</b>	1,348,293	79
Current Liabilities . . . . .	<b>3,214,543</b>	939,014	242
Term—Debt . . . . .	<b>5,110,618</b>	2,127,362	140
Net Worth . . . . .	<b>3,037,288</b>	1,572,159	93



## To our shareholders:

1974 was a very significant year for Wendy's International, Inc. during which many milestones were passed and many goals for the future were established.

It marked the conclusion of our first 5 years in operation. Net income exceeded \$1 million for the first time. Revenue passed \$10 million for the first time. Construction was begun on the one-hundredth Wendy's Old Fashioned Hamburgers restaurant.

Net income in 1974 was \$1,129,058 compared to \$327,257 in 1973, a gain of 245%. Earnings per share increased 227% to \$.36 in 1974 from \$.11 in 1973. Per share computations are based on 3,168,600 average shares outstanding in 1974 and 3,102,300 average shares outstanding in 1973 and reflect the 3-for-2 and 2-for-1 stock distributions declared during 1974.

Total corporate revenues increased to \$12,600,524 in 1974 from \$4,540,931 in 1973, an increase of 177%. In addition, sales for all company-owned and franchised operations amounted to \$24,232,962, a gain of 287% over 1973 sales of \$6,263,848. The bulk of this \$18 million increase came from the 61 stores that were opened during 1974.

However, a gain in the average volume per store also made a significant contribution.

During 1974, 15 company-operated restaurants were opened. In addition, 10 restaurants were acquired from a franchisee, bringing the total company-operated restaurants to 42 at year's end. A vigorous development program is underway which will see at least an additional 10 company-operated stores in the spring of 1975.

With the broadening exposure of the Wendy's format, franchising activities have intensified. In 1974, franchisees opened 46 new stores. Of equal importance is the fact that the close of 1974 saw 25 stores under construction.

1974 saw the initial Wendy's Old Fashioned Hamburgers restaurant open in each of seven new states: California, Georgia, Kentucky, Michigan, Tennessee, Texas and West Virginia. This brings the total number of states in which Wendy's now operates to 12. Before 1976 we expect to open in at least 12 new states, plus Canada, and have at least 200 stores open or under construction. Among the more important achievements of 1974 were the signings of several major franchising agreements: one covering the Chicago and Milwaukee markets;

another covering the Philadelphia area; and, the first contract outside of the United States with a Canadian group for a portion of the province of Ontario.

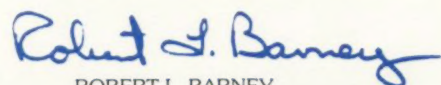
1974 was a challenging year for American industry. In the face of unprecedented inflation, Wendy's was able to control menu price increases to less than 5.0% while maintaining satisfactory profit margins. Although the future direction of food prices is clouded, we can assure you that the high quality associated with Wendy's will never be compromised. We feel that there always will be plenty of room in the marketplace for companies able to provide consistent high quality, convenience and, most importantly, value.

We wish to thank everyone who has supported us during the first 5 years. We look forward to 1975 with great anticipation.

Respectfully submitted,



R. DAVID THOMAS  
Chairman of the Board,  
Chief Executive Officer



ROBERT L. BARNEY  
President,  
Chief Operating Officer



R. David Thomas, seated  
Robert L. Barney, standing



## A FRESH APPROACH...

### To the hamburger business.

How do you "revitalize" an American institution? Well, in 1969 R. David Thomas felt that, in stressing convenience, many food service companies had forgotten what the hamburger—and food service—are all about. And so a fresh approach was developed, an approach that is really a synthesis of "old-fashioned" basics.

Serve the customer what he or she wants. Never forget the customer. Use only top quality foods. Provide value. And remember that convenience is a major reason for the phenomenal growth of America's food service industries.

The first Wendy's Old Fashioned Hamburgers restaurant opened in Columbus, Ohio. From the beginning the old-fashioned theme has been emphasized in our products and in our image. Our hamburgers are prepared using only fresh 100% beef.

They are served in three sizes, each available with a combination of eight condiments, thereby offering every customer a choice of 256 variations in the quarter-pound size, in the half-pound size, and in the three-quarter-pound size. As a result, each Wendy's hamburger is made to order, served directly from the grill and never prewrapped or warmed over.

We recognize the importance of a consistent image. At Wendy's the emphasis on old-fashioned manifests itself in our exterior design as well as interior decor. A Wendy's restaurant incorporates a red colonial brick facade with a conventional roof line. Large plate glass windows surrounding the dining area enable the consumer to view the turn-of-the-century interior. And on the inside, the dining room is bright and airy. The professional landscaping, the warm colors, the Tiffany-styled lamps, the bentwood chairs, the tabletops imprinted with 19th century advertising...

Need we say more? Image is important. Our goal is to communicate to prospective customers, as well as to new customers and long-time fans, that Wendy's is a restaurant of quality. Every aspect of our operation is designed to reflect this image, immediately and with believability. Soft background music, deep pile carpeting, congeniality—a sound image evolved from a simple theme. The theme?

## A FRESH APPROACH...

**To our product.** And what a product we have! "We start fresh every day." That's one of our slogans, and it summarizes why we feel our products are superior.

Wendy's uses only fresh beef delivered in bulk and pattied daily. Why? Fresh beef and frozen beef cook differently. We work very hard with our meat suppliers throughout the country to insure that the beef is up to our standards. Using fresh beef



- A. Smiling crew at Tulsa, Oklahoma opening.
- B. Kids love "old-fashioned" flavor.
- C. Service with a smile.
- D. V.P. Operations Chuck Rioux on the job.
- E. Training Director Phil Pappas (right) demonstrating squeeze test for freshness.
- F. Cash register training, Wendy's Management Institute.
- G. Wendy's 250-seat midway tent, Ohio State Fair.





requires more time, effort, and expense. We feel the results are worth it.

Wendy's hamburgers are offered in three different sizes: single ( $\frac{1}{4}$  lb.); double ( $\frac{1}{2}$  lb.); and triple ( $\frac{3}{4}$  lb.). The meat is cooked on a slow grill to retain the flavor and natural juices, and then served immediately with the customer's choice of condiments.

Wendy's meaty chili is prepared daily in each restaurant using our own recipe. It is prepared slowly. Our chili simmers in deep kettles for at least one half day to blend and bring out all the natural flavors.

Only the finest produce is served at Wendy's. Only head lettuce is used; the highest quality tomatoes and onions are fresh-sliced continually throughout the day. The finest national brand condiments are served.

Our concession to modern-day methods is computerized french fry cookers which regulate the exact temperature and time required to produce a consistently superior french fry.

The Frosty, a creamy chocolate-and-vanilla dessert, is blended so thick that you need a spoon to eat it.

We have the quality. We have the right image. So far, so good, but how well do we "deliver?"

### A FRESH APPROACH...

**To customer service.** We've found that good service is the result of attention to details. While Wendy's puts its primary emphasis on product quality, we have not forgotten the old-fashioned adage, "The customer is always right." At Wendy's we are in business to please the customer. We work very hard to insure that our service is outstanding. We offer the customer the choice of eating in the store or using our pick-up window. We stress proper sandwich preparation, wrapping carry-out orders in foil to ensure a warm sandwich, not short-changing the customer on condiments and, finally, recognizing the importance of a warm smile and a polite "thank you."

### A FRESH APPROACH...

**To training and developing our people.** We realize that a company is only as good as the individuals working for it. Wendy's trains men and women to become professionals. The core of Wendy's program is Wendy's Management Institute. A full-time staff teaches company trainees and franchisees. During 1974 the Institute graduated 200 trainees.

We have divorced ourselves from the conventional lecture-and-note-taking type of classroom. Classroom training is coupled with on-the-job training. Each individual is actively involved. We make learning a challenge by eliminating rote and by requiring a trainee to think about his or her job, responsibilities and future.

After initial training our field service supervisors continually work with personnel to help "iron out" the problems that might occur in daily operations. Personnel development





is an investment—an important investment of time, energy, and money. Our return? A group of enthusiastic, dedicated, highly motivated employees who are more than “workers.” They have become an invaluable asset.

How well do our corporate policies insure that asset?

### A FRESH APPROACH...

**To employee relations.** Our salary and benefit program is more than competitive with any in the food industry. All full-time employees are

eligible to participate in the company group hospitalization and life insurance program. The use of bonuses and awards is emphasized, and creativity encouraged.

As a young, growing company it is important to consider the career aspects of our business. Many members of the present management started their careers as Wendy's crewmen. As we continue to grow, we strive to provide the opportunity for our employees to advance, and we recognize that our future success is tied directly to our employees' personal development.

A solidly conceived advertising and sales promotion program is contributing in no small way to the scope of this future.

### A FRESH APPROACH...

**To advertising.** Advertising, sales promotion and public relations continue to play a key and increasingly effective role in the growth and profitability of Wendy's. In great measure this is because every campaign, and every element, captures and highlights Wendy's unique marketing appeals: freshness, quality and choice.



H. “Wendy” and hostesses at press party.

I. Fastest take home service in town.

J. Comfortable dining rooms invite relaxation.

K. Parlor beads and leaded glass Tiffany shades give old-fashioned atmosphere.

L. A downtown restaurant with Tiffany canopy sign.

M. A “Single” and Frosty made for America.

N. Suburban image building.

Advertising involves everybody

O. Employee badge

P. Window sign

Q. Newspaper ads



K



Wendy's strives to achieve a consistent image by building all advertising around our three most important parameters—that people love hamburgers, want maximum quality and service, and want to eat out in a friendly, family atmosphere.

On television and radio, in newspapers, at the point of purchase and through handbills and publicity, the Wendy's story goes out. While individual promotions build new business by stressing quality, choice, and the pick-up window, the overall results are what really count. They are best reflected by 1974 growth,

1975 outlook, and the fact that the corporate advertising program works just as powerfully for every restaurant in the Wendy's family, regardless of locale.

Having this degree of professional marketing expertise involved in a vital area of the business has been an important ingredient of Wendy's success.

### A FRESH APPROACH...

**To franchising.** For years part of the "American Dream" has been to operate your own business. The franchise approach has lent itself

readily to this desire. However, franchisors have developed a wide variety of approaches to franchising: at one extreme strongly controlling their franchisees; at the other, offering little more than a name.

At Wendy's we pride ourselves on the attention devoted to our franchisees. We are strictly in the hamburger business and to remain successful in the business we realize we must be operationally sound. To reach our goal of 1000 restaurants by 1978 we will rely heavily on our franchisees.





The entire staff of Wendy's Franchise Department are veterans who have excelled in the company's Operations Department. Wendy's field supervisors spend the majority of their time working directly with a franchisee and his key operations people. Special emphasis is placed on new store openings. Often two men will spend a week to 10 days in a franchisee's store to insure a smooth opening.

The Franchise Department and the Company Operations Department work hand-in-hand on all operational policies from equipment configurations to approved vendor lists. Wendy's has negotiated a number of national contracts with major suppliers under which a franchisee is guaranteed the same prices as Wendy's International. It is not our policy to resell any equipment or food products to our franchisees. This approach to purchasing results in a high degree of uniformity in all of our units without sacrificing the individual franchisee's profitability.

To date, Wendy's International has been privileged to have as franchisees some of the finest

operators in the food service business. Many have joined us after extremely successful careers with competitors. We feel this decision to become a Wendy's franchisee is the strongest endorsement we can possibly receive.

In everything we do, we strive to constantly reaffirm our franchisees' belief in the future of Wendy's. A strong market development program is vital to this success.

### A FRESH APPROACH...

#### To market development.

While we utilize many of the same site selection parameters common to our industry, Wendy's has had success in locating stores in areas in which convenience restaurants are not customarily found. Older residential areas and downtown locations have proven to be strong markets.

In this age of increasing and toughening zoning restrictions, the clean appearance of Wendy's basic restaurant unit has met with minimum objections and is easily modified when necessary to comply with local zoning ordinances.

In the past year we have further

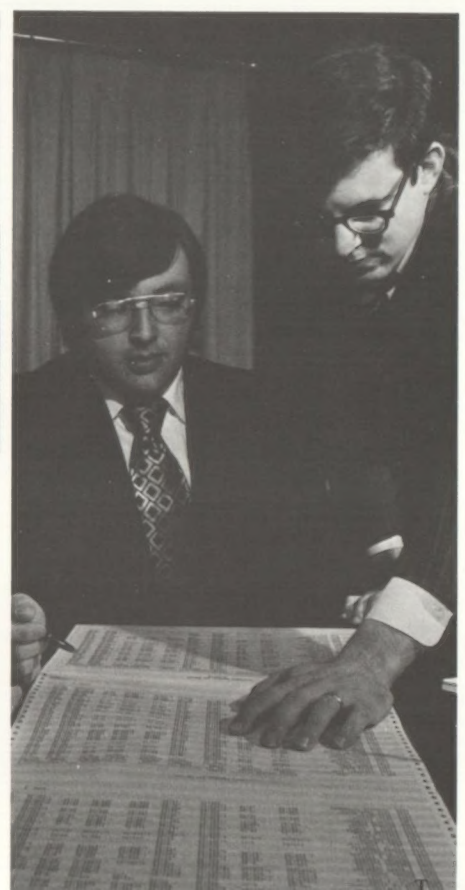
developed our in-house real estate, architectural and construction capabilities, and formalized these functions with the addition of two new departments headed by a Director of Real Estate and an Architect.

### A FRESH APPROACH...

**To growth.** 1974 was Wendy's International's fifth complete year of operation. The growth has been dramatic. We have established a foundation from which to pursue our goal of becoming a major international restaurant chain and the recognized leader in the hamburger business.

To achieve this goal we plan to preserve our existing format. We feel that broadening our menu would detract from our efforts to serve a consistently superior hamburger. A strong market exists for quality hamburgers and we have barely scratched the surface.

The preceding pages admittedly overflow with pride. We can't hide it. We are a profitable business that serves the public as it deserves to be served. For us at Wendy's International, Inc., 1974 has been a very good year.



- R. V.P. Franchising Dave Teal (left) and V.P. Franchise Sales Graydon Webb (right) practicing what they preach.
- S. Director of Real Estate Jim Graham (left) and Director of Engineering Hank Sherowski (right) surveying a unit "in the ground."
- T. Secretary and Treasurer Ron Musick (left) and Financial V.P. Dick Fox (right) review monthly sales.



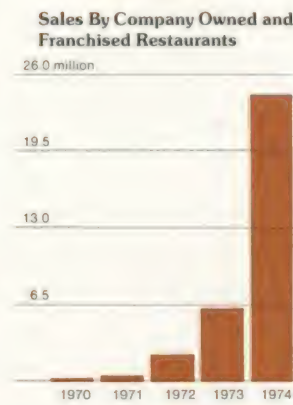
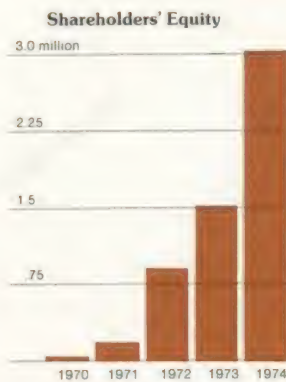
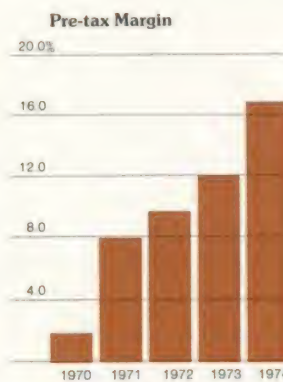
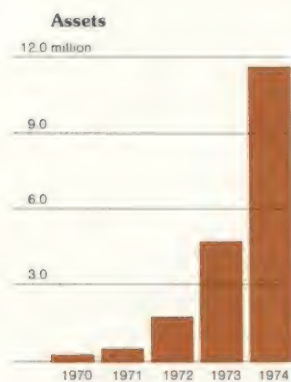
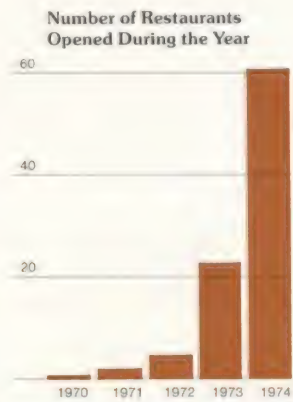
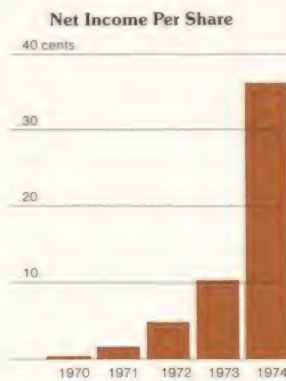
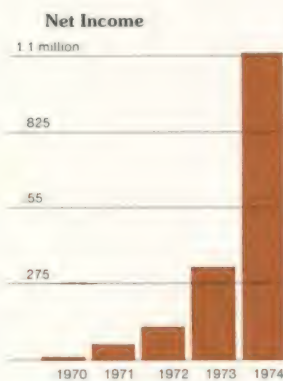
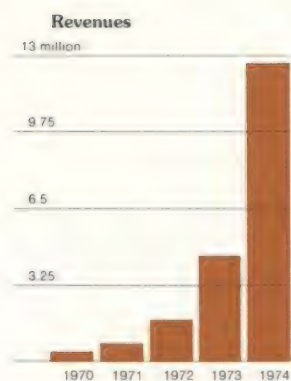
## Historical Financial Summary

5 Year Period 1970-1974

Years Ended December 31

	1970	1971	1972	1973	1974
Revenues . . . . .	\$ 257,308	\$ 683,967	\$1,834,118	\$4,540,931	\$12,600,524
Income Before Taxes . . . . .	5,290	55,838	182,198	583,457	2,134,532
Net Income . . . . .	2,290	45,570	108,498	327,257	1,129,058
Earnings per Share . . . . .	.002	.02	.05	.11	.36
Total Assets . . . . .	208,000	397,165	1,728,700	4,735,835	11,713,249
Shareholders' Equity . . . . .	15,847	151,417	949,534	1,572,159	3,037,288
Number of Shares outstanding . . . . .	1,237,500	2,250,000	2,775,000	3,011,610	3,061,610
Pre-Tax Margin . . . . .	2.05%	8.16%	9.93%	12.84%	16.94%
Return on Equity* . . . . .	15.57%	54.48%	19.70%	25.95%	48.99%
Sales—Company-owned & Franchised . . . . .	255,610	681,804	2,014,567	6,263,848	24,232,962
Number of Restaurants in Operation . . . . .	2	4	9	32	93
Company-owned . . . . .	2	4	7	17	42
Franchised . . . . .	—	—	2	15	51

\*Based on Average Equity Employed





## Wendy's International, Inc. Balance Sheet

### Assets

	Years ended December 31	1974	1973
<b>Current assets:</b>			
Cash, including 8.75-9.25% certificates of deposit of \$1,130,000 and \$930,000, respectively . . . . .		<b>\$ 2,133,863</b>	\$1,256,172
Accounts receivable . . . . .		<b>146,718</b>	38,425
Inventories (Note 1) . . . . .		<b>138,059</b>	48,141
Prepaid expenses . . . . .			5,555
Total current assets . . . . .		<b>2,418,640</b>	1,348,293
 <b>Other assets and deferred income taxes</b> . . . . .		<b>295,646</b>	61,688
 <b>Property and equipment, at cost (Notes 1 and 2):</b>			
Buildings . . . . .		<b>2,211,989</b>	808,508
Leasehold improvements . . . . .		<b>1,136,904</b>	361,418
Restaurant equipment . . . . .		<b>2,548,673</b>	930,226
Motor vehicles . . . . .		<b>107,635</b>	24,901
Office equipment . . . . .		<b>67,375</b>	19,078
Lease rights . . . . .		<b>300,709</b>	
		<b>6,373,285</b>	2,144,131
Less accumulated depreciation and amortization . . . . .		<b>439,567</b>	160,991
		<b>5,933,718</b>	1,983,140
Land . . . . .		<b>2,676,837</b>	1,190,989
Construction in progress . . . . .		<b>388,408</b>	151,725
		<b>8,998,963</b>	3,325,854
		<b>\$11,713,249</b>	\$4,735,835

The accompanying notes are an integral part of the financial statements.



## Liabilities and Stockholders' Equity

	Years ended December 31	1974	1973
<b>Current liabilities:</b>			
11.75-12.50% Notes payable, bank . . . . .		\$ 20,000	\$ 54,000
Accounts payable, trade . . . . .		1,204,751	265,451
Federal, state, and local income taxes . . . . .		812,662	192,100
Accrued expenses . . . . .		466,627	133,781
Current portion, term debt . . . . .		710,503	293,682
Total current liabilities . . . . .		<u>3,214,543</u>	<u>939,014</u>
 Term debt, net of current portion (Note 2) . . . . .		<u>5,110,618</u>	<u>2,127,362</u>
 <b>Deferred (Note 1):</b>			
Income taxes . . . . .		158,300	62,300
Franchise fees . . . . .		192,500	35,000
		<u>350,800</u>	<u>97,300</u>
 <b>Commitments (Note 3)</b>			
 <b>Stockholders' equity:</b>			
Common stock, \$.10 stated value (Notes 4 and 6):			
Authorized: 4,000,000 shares			
Issued and outstanding: 3,061,610 shares (3,011,610 in 1973) . . . . .		306,161	100,387
Capital in excess of stated value . . . . .		1,142,195	1,004,244
Retained earnings . . . . .		1,588,932	467,528
Total stockholders' equity . . . . .		<u>3,037,288</u>	<u>1,572,159</u>
		<u>\$11,713,249</u>	<u>\$4,735,835</u>

The accompanying notes are an integral part of the financial statements.



# Statement of Income

	Years ended December 31	<u>1974</u>	<u>1973</u>
<b>Revenue:</b>			
Retail operations . . . . .		<b>\$11,736,311</b>	\$4,314,750
Franchise operations (Note 1) . . . . .		<b>736,813</b>	147,964
Other . . . . .		<b>127,400</b>	78,217
		<b><u>12,600,524</u></b>	<u>4,540,931</u>
 <b>Costs and expenses:</b>			
Cost of sales . . . . .		<b>6,402,173</b>	2,372,883
Operating and administrative expenses . . . . .		<b>4,063,819</b>	1,584,591
		<b><u>10,465,992</u></b>	<u>3,957,474</u>
Income before income taxes . . . . .		<b><u>2,134,532</u></b>	<u>583,457</u>
 <b>Income taxes (Note 1):</b>			
Federal:			
Current . . . . .		<b>897,100</b>	203,500
Deferred . . . . .		<b>(17,700)</b>	13,500
		<b>879,400</b>	217,000
State and local . . . . .		<b>126,074</b>	39,200
		<b><u>1,005,474</u></b>	<u>256,200</u>
Net income . . . . .		<b><u>\$ 1,129,058</u></b>	<u>\$ 327,257</u>
 Net income per share of common stock (Note 1) . . . . .		<b><u>\$ .36</u></b>	<u>\$ .11</u>
 Number of restaurants in operation, end of year (Note 5) . . . . .		<b><u>42</u></b>	<u>17</u>
 Average number of restaurants in operation during the year (Note 5) . . . . .		<b><u>25</u></b>	<u>11</u>

The accompanying notes are an integral part of the financial statements.



# Statement of Stockholders' Equity Years ended December 31, 1974 and 1973

	<u>Shares Outstanding</u>	<u>Common Stock</u>	<u>Capital in Excess of Stated Value</u>	<u>Retained Earnings</u>	<u>Total Stock- holders' Equity</u>
<b>Balance, December 31, 1972</b> .....	92,500	\$ 92,500	\$ 711,744	\$ 145,290	\$ 949,534
Sale of common stock .....	7,500	7,500	292,500		300,000
Shares issued related to purchase of franchise .....	387	387			387
Shares issued in connection with ten-for-one stock split (Note 4) .....	903,483				
Cash dividend, \$.005 per share .....				( 5,019)	( 5,019)
Net income for the year .....				<u>327,257</u>	<u>327,257</u>
<b>Balance, December 31, 1973</b> .....	1,003,870	100,387	1,004,244	467,528	1,572,159
Shares issued in connection with stock splits (Note 4):					
Three-for-two .....	501,935	50,193	( 50,193)		
Two-for-one .....	1,505,805	150,581	(156,856)		( 6,275)
Shares issued related to purchase of franchise (Note 7) .....	50,000	5,000	345,000		350,000
Cash dividend, \$.0025 per share .....				( 7,654)	( 7,654)
Net income for the year .....				<u>1,129,058</u>	<u>1,129,058</u>
<b>Balance, December 31, 1974</b> .....	<u>3,061,610</u>	<u>\$306,161</u>	<u>\$1,142,195</u>	<u>\$1,588,932</u>	<u>\$3,037,288</u>

The accompanying notes are an integral part of the financial statements.



## Statement of Changes in Financial Position

Source of working capital:	Years ended December 31	1974	1973
Operations:			
Net income . . . . .		\$ 1,129,058	\$ 327,257
Items not requiring outlay of working capital:			
Depreciation and amortization . . . . .		280,746	96,956
Deferred income taxes, noncurrent . . . . .			18,200
		<u>1,409,804</u>	<u>442,413</u>
Additional long-term indebtedness . . . . .		4,066,804	1,982,578
Issuance of common stock . . . . .		350,000	300,387
Deferred franchise fees . . . . .		157,500	25,000
Total source of working capital . . . . .		<u>5,984,108</u>	<u>2,750,378</u>
Disposition of working capital:			
Property and equipment additions . . . . .		5,650,976	2,484,272
Payments on term debt net of conversion to current indebtedness . . . . .		1,083,548	107,824
Purchase of lease rights . . . . .		300,709	
Development of trademarks . . . . .			1,514
Cash dividend . . . . .		7,654	5,019
Deferred income taxes . . . . .		17,700	
Common stock filing fees . . . . .		6,275	
Increase in other assets, net . . . . .		122,428	22,586
Total disposition of working capital . . . . .		<u>7,189,290</u>	<u>2,621,215</u>
Increase (decrease) in working capital . . . . .		<u>\$ (1,205,182)</u>	<u>\$ 129,163</u>
Change in components of working capital:			
Increase (decrease) in current assets:			
Cash . . . . .		\$ 877,691	\$ 524,562
Accounts receivable . . . . .		108,293	11,711
Inventories . . . . .		89,918	30,955
Prepaid expenses . . . . .		( 5,555)	1,891
		<u>1,070,347</u>	<u>569,119</u>
Increase (decrease) in current liabilities:			
Notes payable . . . . .		( 34,000)	( 100,000)
Accounts payable, trade . . . . .		939,300	122,401
Federal, state, and local income taxes . . . . .		620,562	125,400
Accrued expenses . . . . .		332,846	68,224
Current portion, term debt . . . . .		416,821	223,931
		<u>2,275,529</u>	<u>439,956</u>
Increase (decrease) in working capital . . . . .		<u>\$ (1,205,182)</u>	<u>\$ 129,163</u>

The accompanying notes are an integral part of the financial statements.



# Notes to the Financial Statements

## 1. Accounting Policies:

The following is a summary of significant accounting policies followed in the preparation of the financial statements. The policies conform to generally accepted accounting principles and have been consistently applied.

### a. Basis of Presentation:

The financial statements include the operations of Wendy's International, Inc. and the operations of certain franchises acquired in October 1974, which transaction is more fully described in Note 7 to the financial statements.

### b. Inventories:

Inventories are stated at lower of first-in, first-out cost, or market.

### c. Property and Equipment:

Depreciation and amortization are recognized on the straight-line method in amounts adequate to amortize costs over the estimated useful lives of the assets.

Costs to complete 6 restaurants under construction at December 31, 1974 approximated \$371,000. Certain costs incurred during the period of construction, such as ground rentals, real estate taxes, and interest on construction loans are expensed as incurred.

### d. Federal Income Taxes:

Deferred taxes on income result from recognition of the income tax effect of timing differences in reporting transactions for financial and tax purposes. Such timing differences relate primarily to depreciation, franchise revenues, and state income taxes.

Investment tax credits are reflected on the flow-through method, whereby such credits reduce federal income tax expense in the year in which the credit is realized as a reduction of taxes currently payable. Such credits approximate \$85,000 in 1974 and \$38,400 in 1973.

### e. Franchise Operations:

The Company grants franchises to private operators in exchange for an initial franchise fee, and receives royalties based on a percentage of monthly gross sales. The initial franchise fee is recorded as income when the restaurant commences operations. Royalties are recognized as income on the accrual basis. Expenses associated with franchise operations are charged to expense as incurred.

### f. Net Income Per Share of Common Stock:

Net income per share has been computed on the average number of shares outstanding during each year, 3,168,600 in 1974 and 3,102,300 in 1973 after giving retroactive effect to the three-for-two and the two-for-one stock splits (Note 4) and including stock options (Note 6) as common stock equivalents.

## 2. Term Debt:

Term debt at December 31, 1974 consisted of the following:

	<u>Total</u>	<u>Due Within One Year</u>
Unsecured notes payable, bank, at 1½% above prime rate, due in monthly installments through 1978	\$ 343,167	\$ 94,536
Notes payable, banks, at 1½% above prime rate, payable in monthly installments plus interest, collateralized by equipment with a net book value of approximately \$1,955,000	1,531,361	372,920
Note payable, former franchisee, at 2% above prime rate, payable in monthly installments of \$30,000 plus interest, collateralized by equipment with a net book value of approximately \$160,000	101,486	101,486
13% Notes payable, former franchisee, collateralized by first mortgages on land, buildings, and improvements, payable in full January 1977	728,301	
Various mortgages on real estate, payable monthly through 1999, at interest rates ranging from 5¼% to prime plus 2%. Substantially all land, buildings, and improvements are pledged as collateral for such mortgages	3,116,806	141,561
	<u>\$5,821,121</u>	<u>\$710,503</u>

## 3. Commitments:

### Leases:

At December 31, 1974, certain land and buildings were leased under terms of lease agreements expiring at various dates through 1994. The minimum annual rentals under such leases are as follows:

<u>Period</u>	<u>Total</u>	<u>Period</u>	<u>Total</u>
1975	\$ 287,412	1979	\$ 277,012
1976	287,412	1980-1984	1,317,844
1977	287,412	1985-1989	885,319
1978	283,412	1990-1994	526,920



Rental expense under these and similar leases aggregated \$226,000 in 1974 and \$108,000 in 1973. In addition to minimum rents, certain leases require additional rentals when annual revenues exceed amounts specified in the lease agreements. Additional rentals approximated \$81,000 in 1974 and \$34,000 in 1973.

As of December 31, 1974, the present value of future lease commitments approximated \$2,141,126, computed by discounting lease payments at interest rates ranging from 7 to 11%, determined to be applicable at the time of entering the lease.

#### 4. Changes to Stockholders' Equity:

During 1974, by action of the Board of Directors, the Company's authorized common stock was increased to 4,000,000 shares. During May 1974, the Board of Directors authorized a three-for-two split of outstanding shares. Subsequently, in September 1974, the outstanding shares were split on a two-for-one basis.

#### 5. Restaurants in Operation:

Operations were expanded during 1974 with the addition of twenty-five restaurants which resulted in the Company having an average of twenty-five restaurants in operation during the year and forty-two restaurants open at year-end.

#### 6. Stock Options:

During 1974, the Company granted options to certain key employees to purchase common stock at the estimated market value in effect at the date of the grant. To date, 240,000 shares have been authorized for issuance under three separate plans. The options expire five years from the date of grant and become exercisable three years from date of grant, at which time they are exercisable 50% per year for the succeeding two years. A summary of options follows:

	Number of Shares	Option Price	
		Per Share	Total
Outstanding, December 31, 1973	187,950	\$ .40 - 3.34	\$203,160
Granted	33,700	3.34 - 7.00	167,800
Canceled	(13,030)	.40 - 7.00	(27,740)
Outstanding, December 31, 1974	<u>208,620</u>		<u>\$343,220</u>

#### 7. Acquisition:

Effective October 1, 1974, the Company acquired the outstanding stock of certain Company franchisees, Wendy's of Oklahoma City, Inc., Wendy's of Tulsa, Inc., Wendy's of Dallas, Inc., and Wendy's of Houston, Inc. (the franchisees) and, in a related transaction, the Company purchased certain assets leased by the franchisees from a shareholder of the franchisees, for a total purchase price of \$1,888,000.

The acquisition has been accounted for as a purchase and the aforementioned franchisees were merged into the Company at the acquisition date. The results of

operations from the acquisition date have been included in the accompanying statement of income. Under the purchase method of accounting, the total purchase price was assigned to the net tangible and identifiable intangible assets (favorable lease rights) acquired based upon their estimated fair values. Costs in excess of the aforementioned assigned values (\$79,000) are included in other assets in the accompanying balance sheet and are being amortized over 20 years by the straight-line method. Lease rights included in the accompanying balance sheet aggregated \$300,709 at acquisition and are being amortized over the life of the leases for periods up to 20 years by the accelerated method. The following is a summary of the pro forma results of operations had the transaction taken place as of January 1, 1973 (after adjustments to reflect the estimated fair value of the net assets and interest on the purchase price):

	Pro Forma	
	1974	1973
Revenues	\$14,009,257	\$4,749,650
Costs and expenses	12,017,122	4,223,763
Income taxes	912,474	228,600
Net income	1,055,661	297,287
Per share	\$ .33	\$ .10

### Accountants' Report

To the Shareholders  
Wendy's International, Inc.

We have examined the balance sheet of Wendy's International, Inc. as of December 31, 1974 and the related statements of income, stockholders' equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously reported on the financial statements for the year 1973.

In our opinion, the accompanying financial statements present fairly the financial position of Wendy's International, Inc. at December 31, 1974 and 1973 and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Coopers & Lybrand*

Columbus, Ohio  
January 31, 1975



## Wendy's International Inc. Franchisees In The U.S.A. and Canada

### ARIZONA

Phoenix  
Tucson

Ronald J. Kovacs  
Gary Schaffer

### CALIFORNIA

Fresno

Joe Desmond  
Chandler R. Scott

### CANADA

Ontario

Ian Oliver  
Arnold Summerville  
Fletcher Wilson  
Dr. Frank Barnes

### COLORADO

Denver

John Yurik  
William Amato

### FLORIDA

Boca Raton

Gene Imbrogno  
Roy Tuggle  
Milt Lustnauer  
J. W. Near

Ft. Lauderdale

Gene Imbrogno  
Roy Tuggle  
Milt Lustnauer  
J. W. Near

Jacksonville

L. S. Hartzog  
Roy Jones  
Lynn J. Andrews

Orlando

Sam Federico  
John A. Roschman  
W. James Kirst

Tampa

Daytona Beach

Morris G. Reaves

### GEORGIA

Atlanta

L. S. Hartzog  
Lynn J. Andrews  
Jim Vogt

Augusta

Clifford H. Pryor  
Gerald D. Wise

Macon &

Savannah

Raymond Schoenbaum  
Mike Bodnar

### ILLINOIS

Chicago

Interpoint Corporation  
Erle Van Geem, Pres.

### INDIANA

Evansville

Linn Sellers  
David S. Long  
Jack Cline

Ft. Wayne

John Young

Indianapolis

L. S. Hartzog

Ron Gerwig

Kokomo

Jack Paulk

### KANSAS

Topeka

Jim Nellis

### KENTUCKY

Lexington

David Silvey

Louisville

L. S. Hartzog

Ron Gerwig

Dave Osborn

### LOUISIANA

Monroe

Jim Hardin

### MICHIGAN

Detroit

Bob Zankl

Flint

William Hopkins

Robert E. Scott

Kalamazoo

William F. Van Domelen

Lansing &

David J. Stanton &

Jackson

Associates

### MINNESOTA

Minneapolis &

St. Paul

Jack Chabot

Peter Cook

### MISSISSIPPI

Jackson

George Heard

Clinton Collins

### MISSOURI

Kansas City

John Hamra

Don George

### OHIO

Akron-Canton  
Cleveland

Sam Federico  
Tom Hennings  
Gene Hennings

Lorain-Elyria

Mansfield

Norman A. Fox

Tom Hennings

Gene Hennings

Portsmouth

O. E. Webb

Ed Kizer

Sandusky

John E. Trowbridge

Springfield

Ed Loving

Franz Huntington

George Meyers

Youngstown

Sam Federico

### PENNSYLVANIA

Philadelphia &  
Harrisburg

Susquehanna  
Food Service, Inc.

Stephen Benson, Pres.

Pittsburgh

John Tonti

### SOUTH CAROLINA

Greenville

Richard Thomas

Larry McNair

Don Greer

### TENNESSEE

Knoxville

Doug Sheley

Dr. Charles Ogle

Memphis

Charles Rodgers

William Plyler

### VIRGINIA

Richmond

Jeffrey Schoenbaum

### WEST VIRGINIA

Beckley &

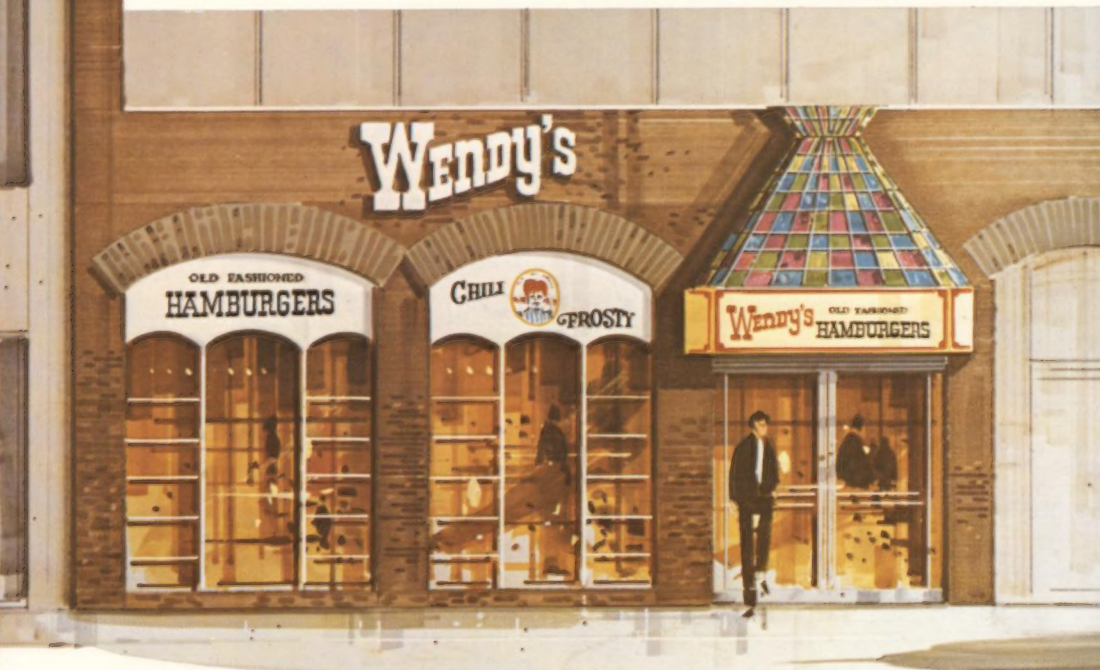
Charleston

Gene Imbrogno

Roy Tuggle

Milt Lustnauer

J. W. Near



Wendy's on the Chicago loop, at Sixth South Clark Street. This unit seating nearly 400 is owned and operated by Interpoint Corporation.



R. David Thomas (left) congratulates franchisee L. S. Hartzog, who was named outstanding contributor to growth and quality for 1974.



